

# ■ Five Years Later, Terror's Threat to the US Economy



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In the five years since the tragic events of Sept. 11, 2001, Islamic radicals haven't managed to repeat that day's carnage. But until the American public has a better handle on why that is, vigilance will remain the watchword.

As the Sept. 11 anniversary approaches, there is still much we don't know about US vulnerabilities and terrorist capabilities. However, there are market-relevant trends to keep an eye on. First, heightened concern for homeland security will continue throughout the fall, and an overabundance of official caution, in my opinion, could weigh on US economic growth. Following the foiled terrorist attack on transatlantic flights in August, tightened security—justified or not—is a political no-brainer. As the Sept. 11 anniversary and the November mid-term elections approach, no public official wants blame should an attack occur without government warning.

Second, Europe remains at greater risk of a large-scale terrorist attack than the US. Although an attack on American soil has not been repeated, the bombings in Madrid and London remind us that Europe faces significant risk of further attacks by extremists operating from within European countries. Counterterrorist efforts there remain intense. But since Europe's Muslim communities are larger and less socially and economically integrated into society than they are in the US, efforts to root out homegrown terrorists are that much more difficult.

Third, the government and security services of Pakistan remain among the most consistently reliable sources of raw counterterrorist data for US and other international intelligence agencies. President Pervez Musharraf has taken an enormous personal risk by alienating Islamic radicals at home, having survived at least three assassination attempts and considerable domestic criticism. If a future attack on Musharraf succeeds, Pakistan might well remain stable. But there is no guarantee

that a more risk-averse successor would continue to provide Washington with such an abundance of useful information.

Another hypothesis is that high anxiety over terrorism will marginally help Republicans in November's mid-term elections in the US. That's not because President George Bush's party dominates the national-security issue like it did following Sept. 11. It doesn't anymore. But anything that distracts the US public's attention away from the unraveling security situation in Iraq and the perceived inaction of the GOP-led Congress will boost the standing of demoralized Republican lawmakers. If Democrats are to net the six seats needed to reclaim the Senate or the 15 seats needed to retake the House of Representatives, they must persuade voters that the election is a referendum on the Bush agenda and Republican Congress—and not on which party can best keep the country safe.

Finally, if there is a terrorist attack inside the US sometime soon, the policy response would be quite different than it was five years ago. Following Sept. 11, the Bush administration embarked on an ambitious and activist foreign policy. The president's low popularity and a military stretched thin by commitments in Iraq and Afghanistan would ensure that the administration's response to another attack would focus on domestic initiatives. Controversial, though less costly, efforts would be made to extend the reach of domestic surveillance programs and to tighten US borders.

Following the Sept. 11 attacks, outrage unified Republicans and Democrats. But a second attack under Bush's watch would further intensify already considerable political partisanship, pitting an unpopular lame-duck president against a re-energized opposition hungry to win elections in 2008. If the parties were to agree on anything, it would likely be on curbing security-sensitive foreign investment in the US, restricting trade with countries that are believed to obstruct counterterrorist efforts and limiting the flow of foreigners into the country. In my opinion, any or all of these measures could weigh on US economic growth. ■

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